

India Research

# ICICI Bank

## Result Update

 Bloomberg: ICICIBC IN  
 Reuters: ICICLBO

**BUY**

### Past the stability phase, recovery starts to take center stage; see multiyear ROE uptrend.

Recovery continues to gain momentum across the parameters. While the headline growth numbers are still modest (3.6%/11.7% YoY/QoQ), the underlying trend is much healthier. Core fee income growth (16%) too now has gained traction and is estimated to further improve in FY20E. The headline asset quality showed sharp improvement (GNPA/NNPA/PCR improved sharply to 7.8%/2.6%/68.5% from 8.5%/3.7%/59.5%) and the steep reduction in credit cost would provide sharp lever to ROE improvement in FY20E, and going forward. We see recovery beyond the 15% ROE guidance of the bank by 1QFY21. We see levers on ROE improvement across the parameters-Leverage, margins, cost, fee income & credit cost. We maintain BUY on the stock with Target Price of Rs 450 (valuing core banking at 2.0x FY20E P/B & subsidiaries at Rs 100 per share).

**Headline NIMs show improvement; outlook positive:** The headline NIMs were up 7 bps QoQ to 3.43%. While the same was also supported by one-off interest reversals, we also note core improvement from declining slippages and decline in NPA ratios. While some front gains from MCLR reprising on higher proportion of variable rate book would reverse in FY20E, we see the bank still holding leeway on margins from reduction in NPA ratios going forward. Quarterly performance could be volatile based on bulky NPA resolutions.

**Loan Growth: Underlying trend healthier than the headlines:** While the headline loan (Rs 5.6 trillion) growth is still modest at 3.6%/11.7% QoQ/YoY, we assess the underlying trend to be much healthier with retail growth at 6.9%/21.6% (includes ~68bn of buy outs from NBFCs as well). The growth was strong across the retail products. The domestic corporate and Overseas Book de-grew 1.6%/2.7% QoQ, though we understand the reported numbers to be also impacted by bulky repayments on NPA resolution and appreciation in the Indian Rupee. We see headline growth numbers to improve to ~15% in FY20E from 13% in FY19E, as the headline impact of NPA resolutions starts to recede.

### Key Financials

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	212,240	217,373	230,258	266,047	312,326
Pre-Provision Profit	238,635	264,867	247,415	232,551	267,650
PAT	97,263	98,011	67,774	38,615	143,639
EPS (Rs)	15	15	11	6	22
BV (Rs)	140	156	164	168	187
P/E (x)	23.9	23.8	34.5	60.6	16.3
P/BV (x)*	2.1	1.9	1.8	1.7	1.5
Gross NPA (%)	5.8	8.8	10.0	7.2	3.4
Net NPA (%)	3.0	5.4	5.4	2.4	1.1
ROA (%)	1.6	1.4	0.9	0.5	1.5
ROE (%)	11.4	10.3	6.6	3.6	12.6

Source: Company, Karvy Stock Broking, \*adjusted for subsidiaries

### Recommendation

CMP:	Rs 364
Target Price	Rs 450
Previous Target Price:	Rs 450
Upside (%)	23.6%

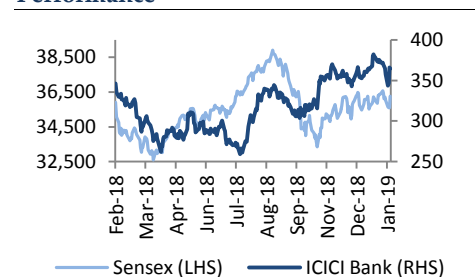
### Stock Information

Market Cap. (Rs bn / US\$ mn)	2348/33,001
52-week High/Low (Rs)	383/257
3m ADV (Rs mn /US\$ mn)	7,091/100
Beta	1.3
Sensex/ Nifty	36,257/10,831
Share outstanding (mn)	6,441

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	1.2	2.7	3.3	1.2
Rel. to Sensex	0.7	(2.5)	2.4	0.7

### Performance



Source: Bloomberg

### Earnings Revision

(%)	FY19E	FY20E
Loan	↓ 0.4	↓ 3.1
NII	↓ 2.2	↓ 4.8
PAT	↓ 14.3	↓ 10.8

Source: Karvy Stock Broking

### Analysts Contact

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**ICICI Bank**

**Asset quality; headlines show sharp improvement; outlook stable:** The headline asset quality ratios (% of customer assets) GNPA/NNPA/PCR improved sharply to 7.8%/2.6%/68.5% from 8.5%/3.7%/59.5% in 2QFY19. The improvement was led by bulky resolution and also lowers slippages at Rs 20.1 bn vs Rs 31.2 bn in 2QFY19. The retail slippages were sequentially higher at Rs 10.7 bn (1.3% annualized), though quite manageable and also led by higher slippages from agriculture segment. There were fresh downgrades of Rs ~10 bn to BB & Below accounts, however we understand the same to be not broad based and led by one power account. The BB & Below book is now limited at Rs 188 bn, 3.3% of loan book, giving strong visibility on sharp improvement in credit cost. We estimate credit cost at 3.1%/0.9% in FY19E/FY20E.

**SOTP at Rs 440 per share**

ICICI Bank SOTP	Rs bn	Per Share	Valuation
ICICI Bank	2,247	350	2.0x FY20E BV
ICICI Life Insurance	348	54	3.5x FY18 Embedded Value
ICICI Non Life	148	23	3.6x FY20E BV
ICICI AMC	60	9	4.2x FY20E BV
ICICI UK	9	1	0.3x FY20E BV
ICICI Canada	22	3	0.5x FY20E BV
ICICI Housing Finance	34	5	1.8x FY20E BV
ICICI Sec	75	12	3.9x FY20E BV
Others	12	2	I Ventures and others
Total Val of Sub.	707	110	
Less: 20% holding discount	71	11	
Net Value of Sub.	637	100	
<b>Total Value</b>	<b>2,884</b>	<b>450</b>	

Source: Company, Karvy Stock Broking

**Asset quality; headlines show sharp improvement; outlook stable:** Downward revision in FY20E PAT estimates as we have shifted the slippages expected in FY19 to FY20E leading to higher credit cost and also downward revision in growth estimates as we see resolutions impacting headline numbers (15% in FY20 vs 18% earlier).

**Exhibit 1: Variance**

(Rs mn)	Revised Estimates		Old Estimates		Variance %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Loan Book	5,790	6,647	5,811	6,856	-0.35%	-3.06%
NII	266	312	272	328	-2.19%	-4.79%
Other Income	145	159	144	164	0.77%	-3.40%
Opex	178	203	177	205	0.49%	-0.91%
Operating Profit	233	268	238	287	-2.40%	-6.77%
Credit Cost	180	53	177	47	1.77%	14.07%
PAT	39	144	45	161	-14.31%	-10.82%

Source: Company, Karvy Stock Broking

**Exhibit 2: Quarterly Trends**

Rs bn	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ Growth	YoY Growth
Net Interest Income	57.1	60.2	61.0	64.2	68.8	7.1%	20.5%
Non Interest Income	31.7	56.8	38.5	31.6	38.8	23.0%	22.6%
<i>Treasury Income</i>	0.7	26.9	7.7	(0.4)	4.8	-1468.1%	625.5%
Operating income	88.7	117.0	99.5	95.7	107.6	12.4%	21.3%
Operating expenses	38.1	41.9	41.5	43.2	46.1	6.6%	20.9%
Pre provision profits	50.6	75.1	58.1	52.5	61.5	17.1%	21.5%
Provisions and contingencies	35.7	66.3	59.7	39.9	42.4	6.3%	18.9%
PBT	14.9	8.9	(1.6)	12.6	19.0	51.5%	27.8%
Provision for Tax	(1.6)	(1.3)	(0.4)	3.5	3.0	-14.2%	-283.5%
PAT	16.5	10.2	(1.2)	9.1	16.0	76.6%	-2.7%
<b>Balance Sheet items/ratios</b>							
Deposits (Rs bn)	5,174	5,601	5,469	5,587	6,068	8.6%	17.3%
<i>CASA deposits (Rs bn)</i>	2,606	2,899	2,763	2,835	2,994	5.6%	14.9%
Advances (Rs bn)	5,054	5,124	5,163	5,445	5,643	3.6%	11.7%
CD ratio (%)	97.7	91.5	94.4	97.5	93.0	-446 bps	-467 bps
Tier I (%)	15.0	15.9	15.8	15.4	15.1	-24 bps	10 bps
<b>Profitability</b>							
NIM (%)	3.1	3.2	3.2	3.3	3.4	7 bps	26 bps
Cost-Income ratio (%)	43.0	35.8	41.6	45.2	42.9	-230 bps	-13 bps
Tax rate (%)	(10.9)	(14.8)	26.6	27.6	15.6	-1197 bps	2652 bps
<b>Asset quality</b>							
Gross NPA (Rs bn)	460.4	540.6	534.6	544.9	515.9	-5.3%	12.1%
Net NPA (Rs bn)	238.1	278.9	241.7	220.9	162.5	-26.4%	-31.7%
Gross NPAs (%)	7.8	8.8	8.8	8.5	7.8	-79 bps	-7 bps
Net NPAs (%)	4.2	4.8	4.2	3.7	2.6	-107 bps	-162 bps
Delinquency ratio (%)	3.5	12.4	3.1	2.4	1.5	-84 bps	-204 bps
Coverage ratio (%)	48.3	48.4	54.8	59.5	68.5	903 bps	2022 bps

Source: Company, Karvy Stock Broking

## Financials

### Exhibit 3: Income Statement

Y/E Mar (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Interest Income	527,394	541,563	549,659	638,182	740,060
Interest expense	315,154	324,190	319,401	372,135	427,734
<b>Net interest income</b>	<b>212,240</b>	<b>217,373</b>	<b>230,258</b>	<b>266,047</b>	<b>312,326</b>
Fees	115,276	106,905	116,300	132,371	153,940
Investment Profit	37,954	88,139	57,897	12,419	4,843
Net Revenue	365,471	412,418	404,455	410,837	471,108
Operating Expense	126,836	147,551	157,039	178,287	203,458
-Employee Exp	50,024	57,337	59,140	66,532	75,846
-Other Exp	76,812	90,214	97,900	111,755	127,612
<b>Pre-provision Profit</b>	<b>238,635</b>	<b>264,867</b>	<b>247,415</b>	<b>232,551</b>	<b>267,650</b>
Provisions	116,678	152,081	173,070	179,653	53,264
PBT	121,957	112,786	74,345	52,898	214,387
Taxes	24,694	14,775	6,571	14,282	70,748
<b>PAT</b>	<b>97,263</b>	<b>98,011</b>	<b>67,774</b>	<b>38,615</b>	<b>143,639</b>

Source: Company, Karvy Institutional Research

### Exhibit 4: Balance Sheet

Y/E Mar (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Equity Capital	11,632	11,651	12,858	12,858	12,858
Reserves & Surplus	885,724	987,860	1,038,731	1,070,396	1,188,180
<b>Shareholder's Funds</b>	<b>897,356</b>	<b>999,511</b>	<b>1,051,589</b>	<b>1,083,254</b>	<b>1,201,038</b>
<b>Deposits</b>	<b>4,214,257</b>	<b>4,900,391</b>	<b>5,609,752</b>	<b>6,260,520</b>	<b>7,426,023</b>
-Current deposits	588,699	749,835	889,580	1,014,121	1,196,663
-Saving deposits	1,342,301	1,718,385	2,009,670	2,210,637	2,586,445
-Term deposit	2,283,257	2,432,171	2,710,502	3,035,762	3,642,915
Borrowings	1,748,074	1,475,552	1,828,586	1,700,585	2,040,702
Other liabilities	378,874	376,126	301,964	347,404	398,820
<b>Total liabilities</b>	<b>7,238,561</b>	<b>7,751,578</b>	<b>8,791,892</b>	<b>9,391,764</b>	<b>11,066,583</b>
Cash/Equivalent	598,687	757,131	841,694	907,566	1,079,207
Advances	4,352,639	4,642,321	5,123,953	5,790,067	6,646,997
Investments	1,604,118	1,615,066	2,029,942	2,069,773	2,421,416
Fixed Assets	75,769	78,052	79,035	86,939	95,632
Other assets	607,347	659,009	717,268	537,419	823,331
<b>Total assets</b>	<b>7,238,561</b>	<b>7,751,578</b>	<b>8,791,892</b>	<b>9,391,764</b>	<b>11,066,583</b>

Source: Company, Karvy Institutional Research

**Exhibit 5: Ratio's**

<b>Ratio's</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
<b>Growth (%)</b>					
NII growth	11.5	2.4	5.9	15.5	17.4
Pre-provision profit growth	107.6	11.0	(6.6)	(6.0)	15.1
PAT growth	(13.0)	0.8	(30.9)	(43.0)	272.0
<b>Business (%)</b>					
Advance growth	12.3	6.7	10.4	13.0	14.8
BS growth	11.6	7.1	13.4	6.8	17.8
Credit/Outsider's Liabilities	73.0	72.8	68.9	72.7	70.2
CASA	45.8	50.4	51.7	51.5	50.9
<b>Operating efficiency (%)</b>					
Cost-to-income	34.7	35.8	38.8	43.4	43.2
Cost-to-income (Ex treasury)	38.7	45.5	45.3	44.7	43.6
Cost-to-advances	2.9	3.2	3.1	3.1	3.1
<b>Spreads (%)</b>					
Spreads	2.9	2.7	2.7	2.8	2.9
NIMs	3.4	3.2	3.1	3.2	3.3
<b>Capital adequacy (%)</b>					
Tier I	13.1	14.4	15.9	14.9	14.4
<b>Asset Quality (%)</b>					
Gross NPA	5.8	8.8	10.0	7.2	3.4
Net NPA	3.0	5.4	5.4	2.4	1.1
Provision coverage	50.6	40.2	48.4	68.5	67.7
Slippage	4.3	7.7	6.2	2.7	2.4
Credit-cost	1.7	3.2	3.4	3.1	0.8
<b>Return (%)</b>					
ROE	11.4	10.3	6.6	3.6	12.6
ROA	1.6	1.4	0.9	0.5	1.5
<b>Per share(Rs)</b>					
EPS	15	15	11	6	22
BV	140	156	164	168	187
ABV	120	117	120	147	175
<b>Valuation (x)</b>					
P/E	23.9	23.8	34.5	60.6	16.3
P/BV*	2.1	1.9	1.8	1.7	1.5
P/ABV*	2.6	2.3	2.2	2.2	1.9

Source: Company, Karvy Institutional Research. \*adjusted for subsidiaries

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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